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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL
2014 APR 14 PM 1 57

ORIGINAL

COMMISSIONERS
BOB STUMP-Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF COMMUNITY WATER COMPANY OF GREEN VALLEY FOR AUTHORITY TO BORROW UP TO \$3.4 MILLION FROM COMPASS BANK AND COMPASS MORTGAGE CORPORATION FOR THE PURPOSES OF (1) REFINANCING UP TO \$2.2 MILLION IN EXISTING LONG-TERM DEBT; AND (2) ISSUING AN ADDITIONAL \$1.2 MILLION IN LONG-TERM DEBT, UNDER A.R.S. §§ 40-301 AND 40-302.	DOCKET NO. W-02304A-14-0041 **NOTICE OF FILING AUDITED FINANCIAL STATEMENTS**

Arizona Corporation Commission
DOCKETED
APR 14 2014
DOCKETED BY

On February 12, 2014 Community Water Company of Green Valley ("CWCGV") filed an Application for authority to borrow up to $3.4 million from Compass Bank and Compass Mortgage Corporation ("Compass). Attached to this filing is CWCGV's 2013 Annual Report, which includes audited financial statements for the year ending December 31, 2013 that CWCGV indicated it would provide once completed.

RESPECTFULLY SUBMITTED this 14th day of April, 2014.

COMMUNITY WATER COMPANY OF GREEN VALLEY

By ______________________________
Jason D. Gellman
ROSHKA DEWULF & PATTEN, PLC.
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Attorney for Community Water Company of Green Valley

Original and thirteen copies of the foregoing filed this 14th day of April, 2014, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered this 14th day of April 2014 to:

Lyn A. Farmer, Esq.
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Janice Alward, Esq.
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arturo R. Gabaldon
President
Community Water Company of Green Valley
1501 South La Canada
Green Valley, AZ 85614-1600

By Debbie Amaral

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DIRECTORS & OFFICERS

Virgil W. Davis, Chair
Retired Director, Electronic Programs, University Research Foundation, Inc.

Sandra L. Stone, Vice Chair
Retired Secondary School Educator

Thomas E. Cooke, Secretary
Retired Trial Attorney, Cooke Lamanna Smith & Cogswell

Thomas J. Six, Treasurer
Retired Chief Financial Officer, Ameritech Information Systems

Arturo R. Gabaldón, President
Community Water Company of Green Valley

Marianne I. Collins
Retired Reading Teacher Specialist

Clarence M. Ebert
Retired Contractor

Donna J. Severidt
Retired Computer Consultant & Manager

Paul D. Williamsen
Retired Scheduling Supervisor, United Technologies Chemical Systems

MANAGEMENT

Arturo R. Gabaldón, President
Community Water Company of Green Valley

Pierre Y. Hanhart
Controller & Assistant Treasurer

Patricia A. Carlstad
Office Manager & Clerk of the Board

At March 26, 2014

VOLUNTEER BOARD CONSULTANTS

Richard W. Cox
Retired Insurance Agent

Charles H. Haynes. Jr.
Retired Print Sales Manager

Donald J. Kamin
Retired Accountant

Kenneth M. Taylor, Jr.
Brigadier General, USAF, Retired

Donald G. Weaver
Retired Executive Management

Edith J. Webber
Retired Educator and Public Representative

2013 Annual Report

Community Water Company of Green Valley (Consolidated)

Our Mission . . .

is to reliably deliver drinking water
to our customers
(that meets all regulated standards),
and to maintain a sustainable water supply
for our customers.

Our Guiding Values

To be good stewards of our members' trust and economic values;
To provide responsible, professional service to our customers;
To promote a safe work environment and to encourage the continued development of a highly skilled staff;
To advocate for responsible local and regional development and management of water resources;
To seek prudent acquisition opportunities for the benefit of our members and community; and
To be civic minded.

Community Water Company of Green Valley
1501 South La Cañada Drive
Green Valley, AZ 85622
(520) 625-8409

Please visit our web site at
www.communitywater.com

**To the Members of
Community Water Company of Green Valley,
(An Arizona not-for-profit corporation)**

37 Years of Service . . . Your Company continues to reliably deliver water all the way to your meter. We have maintained sound financial results; recovering all of the costs associated with our water deliveries. This past year we have reduced our overhead expenses, improved our planning, and replaced our computer system. Our staff continues to focus on system improvements and to reduce expenses where possible.

Our consolidation efforts with the Green Valley Domestic Water Improvement District have been placed on hold. Green Valley Water has asked that your Company become a Domestic Water Improvement District before continuing the consolidation discussions. Your Company has taken this request under advisement. Some questions and answers regarding a Domestic Water Improvement District are presented on page 7 of this report.

Water Delivery System . . . Total rainfall in 2013 remained low at 10.28 inches, but higher than the prior year of 8.84 inches. Your company pumped 2,443 acre-feet of water from our aquifer, slightly more than the prior year.

At year-end 2013, your company had 12,468 active residential units connected to the water delivery system compared with 12,394 the prior year, an increase of 74 accounts. Commercial customers increased 2% from 394 at year-end 2012 to 403 at year-end 2013. Total active units (residential, commercial and other) in our water delivery system increased from 12,875 at year-end 2012, to 12,958 at year-end 2013.

Capital projects included maintenance to our system pumps, treatment equipment, and computer facilities. This computer system replacement has improved our efficiency and reporting capabilities. There were no significant construction projects to report. Other major capital expenditures were related to service replacements and our ongoing meter change out program.

Water Quality . . . The water delivered to our members and customers met or surpassed all health and safety measures required by the United States Environmental Protection Agency, Arizona Department of Environmental Quality (ADEQ), and Pima County Department of Environmental Quality. Our annual water quality report, covering data samples from 2013, will be published in July. The report will confirm that our water deliveries were in full compliance with our water quality requirements. Our latest report is available on our web site.

A Community Advisory Group (CAG) was established as part of a sulfate mitigation order initiated by ADEQ to report on the local sulfate mitigation efforts. Your Company attends the CAG meetings.

Finances . . . Our residential water bills continue to be low for our area; averaging around $21 per month. Total 2013 consolidated operating revenues were approximately $3,863,000 and excess revenues over expenses were approximately $253,000. As a utility, it is important to maintain the financial sustainability of your Company, and to continue generating sufficient revenues to fully meet expenses, develop reserves for dealing with unexpected system breakage, and replacement of an aging infrastructure. The trend of increasing costs is expected to continue in 2014; we will continue to be diligent and identify ways to lower costs. Your Company is increasing its focus on developing sufficient and reasonable reserves to maintain reliable customer water deliveries.

At our last member meeting, your Company reported on the establishment of a separate company to develop and implement our CAP Water Delivery System (Project Renews). A trust was also established to hold and manage the right of way required for construction (including those from Pima County, Town of Sahuarita, Arizona State Land Department, and Arizona Department of Transportation). Revenues and expenses are maintained in those entities to provide separation between the water utility and Project Renews. For reporting purposes, your Company presents audited financial statements on a consolidated basis.

The Central Arizona Project (CAP) . . . Your Company initiated Project Renews in 2007 to bring renewable water supplies to the Green Valley Sahuarita area. The U.S. Department of the Interior, Bureau of Reclamation, selected Community Water's plan as the preferred alternative for taking and using our CAP water entitlement of 2,858 acre-feet in their 2010 Final Environmental Assessment. This assessment also concluded that our plan will not result in any significant negative environmental impacts to the area, and in fact, will have a positive impact on the water table in the area of recharge for many years. Your Company's pipeline and recharge project is the only local CAP water project with the approval of the Bureau of Reclamation. As affirmed in the 2010 Final Environmental Assessment, Project Renews is being developed at no cost to our members. In 2012 and 2013 we acquired several right of ways for our pipeline project and installed some pipe in July, 2012. We anticipate construction on major portions to be completed during 2015.

Your Company continues to develop alternatives in support of a sustainable water supply. Access to an alternative water supply is an important tool in meeting possible local safe yield requirements in the future as a result of the 1980 Arizona Ground Water Act, and is an important option to have available if we encounter unusual ground water contamination in the future.

We continue to work cooperatively with other water stakeholders in the area to bring alternative water supplies to our community. Working together with the Upper Santa Cruz Providers and Users Group gives our area the best chance for achieving safe-yield.

People who serve you . . . Our December 2013 customer satisfaction survey showed our customers' rating did not change much over the year. Overall, 89% of respondents were satisfied with the utility. Water service and quality customer service had our highest satisfaction rates. Sustainable water supplies and conservation programs are important to our customers. We also received high scores for serving the public well, keeping the public informed, and giving good value for the money.

We appreciate our employees who keep us financially sound, provide us with exceptional service, keep us in compliance with regulatory requirements, reliably operate the water system, and provide excellent customer service throughout the year.

Thanks also to our volunteer directors who represent your Company's interests. Their knowledge of the community and our local water issues are valued and we continue to be delighted with the expertise of the directors serving our Company. We extend our best wishes to Ms. Marianne Collins who will not stand for re-election as a director and Mr. Jerry Belenker who resigned this past year. We thank them for sharing their time and judgment with us during their dedicated service to our Company.

We invite you to our annual meeting of members on Thursday, April 24, 2014, at 9:00 a.m. at the Joyner-Green Valley Branch Library, located at 601 N La Canada Dr, Green Valley. Registration begins at 8:30 a.m. We are looking forward to seeing you there.

Sincerely,
Community Water Company of Green Valley

Virgil W. Davis
Chair of the Board

Arturo R. Gabaldón
President

March 26, 2014

Questions & Answers Regarding Alternative Forms of Governance and Maintaining Reserves:

What is a Domestic Water Improvement District (DWID)?
DWIDs are publicly owned water utilities governed by locally elected boards. They are an alternate form of a county improvement district (a political subdivision of a county) with specific geographic boundaries and the authority to:

- acquire, construct, and operate a domestic water utility;
- finance facility acquisition and construction with special assessment bonds or revenue bonds;
- charge and collect water fees and user fees; and
- levy ad valorem taxes for operation and maintenance.

How would residents benefit from being a DWID?
Home owners elect a board from the service area. A DWID reduces the long-term operating costs of the utility. Property taxes, ACC water taxes, and ACC regulation costs would be eliminated and the community would be eligible to apply for previously unavailable grants and other forms of subsidized financing.

What are the cost savings opportunities for a water utility?
Water utilities have high fixed costs and economy of scale offers some cost savings opportunity; i.e., the more customers a utility serves, the lower the fixed cost per rate payer. Intrinsic growth opportunities for your company have become limited.
The remaining option for growth is through consolidation with existing water utilities.

Why does your company need to maintain financial reserves?
A sustainable water supply is basic to our needs, but not sufficient if proper infrastructure is not available to deliver the water. Adequate reserves ensure the financial sustainability of your water utility. Reserves are required for specific maintenance items and unforeseen facility malfunctions, protection against an unforeseen interruption in revenue, and adequate funding of replacement equipment where normal depreciation is inadequate.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Members of
Community Water Company of Green Valley
(An Arizona not-for-profit corporation):

We have audited the accompanying consolidated financial statements of Community Water Company of Green Valley, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of revenues and expenses, membership interest, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Water Company of Green Valley as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated basic financial statements as a whole. The Mission Statement, Letter to the Members, Questions & Answers Regarding Alternative Forms of Governance and Maintaining Reserves, Directors & Officers listing, and Management and Volunteer Consultants listing are presented for purposes of additional analysis and are not a required part of the consolidated basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Ullmann & Company

ULLMANN & COMPANY
Certified Public Accountants
Phoenix, Arizona

April 8, 2014

Consolidated Balance Sheets
For the years ended December 31, 2013 and 2012
(In Thousands)

Assets

	2013	2012
Utility plant		
Plant in service, at cost	**$ 41,700**	$ 41,103
Construction work in progress	**15**	286
	41,715	41,389
Less accumulated depreciation	**15,719**	14,487
Total utility plant, net of depreciation	**25,996**	26,902
SICAN's investment in JPAR LLC	**263**	316
Current assets		
Cash and cash equivalents	**694**	1,067
Securities available-for-sale, at market	**1,418**	861
Accounts receivable, less allowance for doubtful accounts of $4,000 and $5,000 in 2013 and in 2012, respectively	**297**	322
Materials and supplies	**41**	39
Deferred tax assets	**5**	5
Prepayments	**28**	66
Total current assets	**2,483**	2,360
Deferred charges		
Central Arizona Project capital charges	**1,839**	1,789
Trust's Intangible Assets	**127**	2
Other	**99**	128
Total deferred charges	**2,065**	1,919
Total assets	**$ 30,807**	$ 31,497

Membership Interest and Liabilities

	2013	2012
Membership interest		
Memberships and contributions	**$ 48**	$ 48
Accumulated surplus	**8,694**	8,441
Accumulated other comprehensive income	**(64)**	(3)
Total membership interest	**8,678**	8,486
Long-term debt	**0**	2,236
Current liabilities		
Accounts payable	**111**	69
Current maturities of long-term debt	**2,236**	141
Accrued taxes	**100**	101
Other liabilities	**266**	263
Total current liabilities	**2,713**	574
Deferred credits		
Refundable advances for construction	**7,392**	7,878
Other	**149**	201
Total deferred credits	**7,541**	8,079
Contributions in-aid-of construction (CIAC), net	**11,875**	12,122
Total membership interest and liabilities	**$ 30,807**	$ 31,497

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Revenues and Expenses
For the years ended December 31, 2013 and 2012
(In Thousands)

	2013	2012
Operating revenues	**$ 3,863**	$ 3,872
Operating expenses		
Operations	**1,895**	1,838
Maintenance	**238**	230
Depreciation and amortization	**876**	812
Taxes - other	**471**	475
Total operating expenses	**3,480**	3,355
Excess of operating revenues over operating expenses	**383**	517
Other (expenses) revenues		
Interest expense	**(108)**	(115)
Interest income	**11**	24
Other income, net	**(27)**	125
Total other (expenses) revenues	**(124)**	34
Income before income tax	**259**	551
Income tax		
Current tax expense	**(5)**	(7)
Deferred tax (expense) benefit	**(1)**	5
Total income tax	**(6)**	(2)
Excess of revenues over expenses	253	549
Other comprehensive income, net of tax:		
Unrealized (loss) gain on securities	**(61)**	1
Total other comprehensive income	**(61)**	1
Total comprehensive income	**$ 192**	$ 550

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Membership Interest
For the years ended December 31, 2013 and 2012
(In Thousands)

	Accumulated surplus	Accumulated other comprehensive income	Memberships and contributions	Total membership interewst
December 31, 2011				
Membership interest	$7,892	$ (4)	$48	$7,936
December 31, 2012				
Comprehensive income	549	1	0	550
December 31, 2012				
Membership interest	8,441	(3)	48	8,486
December 31, 2013				
Comprehensive income	**253**	**(61)**	**0**	**192**
December 31, 2013				
Membership interest	**$8,694**	**$(64)**	**$48**	**$8,678**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flow
For the years ended December 31, 2013 and 2012
(In Thousands)

	2013	2012
Excess of revenues over expenses	$ 253	$ 549
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation and amortization	876	812
Depreciation and amortization included in operations and maintenance expense	87	98
Change in SICAN's investment in JPAR LLC	53	23
(Increase) decrease in accounts receivable	25	(2)
(Increase) decrease in materials and supplies	(2)	9
(Increase) decrease in deferred tax assets	0	(5)
(Increase) decrease in prepayments	38	(44)
(Increase) in other deferred charges	(98)	(10)
Increase (decrease) in accounts payable	47	(85)
Increase (decrease) in accrued taxes	(1)	14
Increase (decrease) in other current liabilities	(7)	25
Total adjustments	1,018	835
Net cash provided by operating activities	1,271	1,384
Cash flow used in investing activities		
Capital expenditures	(626)	(817)
Proceeds from sale of capital assets	0	34
Proceeds from maturities of securities available-for-sale	1,712	1,197
Purchase of securities available-for-sale	(2,331)	(1,182)
Central Arizona Project capital charges and other	(175)	(42)
Net cash used in investing activities	(1,420)	(810)
Cash flow used in financing activities		
Repayment of long-term debt	(141)	(140)
Proceeds from refundable advances and contributions in-aid-of-construction	90	94
Repayment of refundable advances of construction	(173)	(179)
Net cash used in financing activities	(224)	(225)
Net increase (decrease) in cash and cash equivalents	(373)	349
Cash and cash equivalents at beginning of year	1,067	718
Cash and cash equivalents at end of year	$ 694	$ 1,067
Non cash investing activities		
Accounts payable purchases of utility plant	$ 5	$ 10

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS:

Community Water Company of Green Valley was incorporated in 1975 as an Arizona not-for-profit corporation with members. It purchased an existing water utility business from Arizona Water Company and began operation of the water utility in 1977. The water utility is a regulated public service corporation that delivers water to residential and commercial customers in a southern Arizona active adult community.

These consolidated financial statements include the accounts of all entities in which Community Water Company of Green Valley has a controlling financial interest. In 2011, Community Water Company of Green Valley established a wholly-owned subsidiary corporation named SICAN, Inc. ("SICAN") for the purpose of business investments. In 2012, Community Water Company of Green Valley created a variable interest entity named Community Water Company of Green Valley ROW Trust ("Trust") in which Community Water Company of Green Valley is the trustor and the beneficiary, and SICAN is the Trustee. The entity is to hold and manage right-of-ways required for Project Renews construction.

Generally accepted accounting principles view the economic substance of the trust arrangement as giving Community Water Company of Green Valley a controlling financial interest in the Trust and therefore require that Community Water Company of Green Valley (CWC) consolidate the Trust's financial results into the consolidated financial statements.

The accompanying consolidated financial statements present the results of consolidating CWC, SICAN, and the Trust (collectively referred to as CWC Consolidated).

All significant intercompany accounts and transactions have been eliminated in consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES:

Maintenance of Accounting Records - CWC, SICAN, and Trust maintain their accounting records on the accrual basis of accounting in which revenue is recognized when earned and expenses are recognized when the obligation has been incurred. CWC maintains its records in accordance with the Uniform System of Accounts prescribed for Class A water utilities by the National Association of Regulatory Utility Commissioners.

Utility Plant - Utility plant is stated at original cost and consists of contract costs, labor, material and allowances for indirect costs. The cost of maintenance, repairs, and minor renewals is charged to expense in the year incurred. Depreciation and amortization expense is provided for on the straight-line basis utilizing the following annual rates based on the estimated useful lives of the asset. The depreciation rates and plant in service balances by major classes of depreciable assets are as follows:

	Depreciation Rate (in Percent)	**Balance At December 31, 2013 (In Thousands)**	Balance At December 31, 2012 (In Thousands)
Utility Plant	**2.00 to 12.50**	**$ 40,435**	$ 40,099
Computer Equipment	**20.00**	**571**	277
Backhoe	**5.00**	**107**	107
Vehicles	**20.00**	**416**	450
Land	**N/A**	**171**	170
Total		**$ 41,700**	$ 41,103

Cash and Cash Equivalents - CWC Consolidated considers cash in banks and all highly liquid investments purchased with a maturity of three months or less to be cash equivalents for purposes of reporting cash flows.

Investment Securities - CWC Consolidated accounts for its investment securities in accordance with FASB ASC 320-10-45 which provides that CWC Consolidated classify investments in securities as either trading securities, securities to be held to maturity or securities available-for-sale. CWC Consolidated has classified all investments as securities available-for-sale. Securities available-for-sale consists of U.S. Government investments, mortgage-backed securities, and certificates of deposits. These securities are recorded at fair value with any unrealized gains and losses being reflected as a separate component of membership interest. Gains (losses) on the sale of securities available-for-sale are determined using the specific identification method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Utility Customer Accounts Receivable - Regulated utility customer accounts receivable represent amounts billed customers on a cycle basis. Credit is extended based on the guidelines of the applicable regulators and generally, collateral is not required.

Allowance for Uncollectible Accounts - Allowances for uncollectible accounts are maintained for estimated probable losses resulting from CWC's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due, and the allowance for doubtful accounts is computed based on an analysis of collectability of accounts receivable at the balance sheet date. For 2013 and 2012, there was an allowance of $4,000 and $5,000 respectively. SICAN and Trust did not have allowances for uncollectible accounts for 2013 and 2012.

Materials and Supply Inventory - Inventory is stated at the lower of cost or market. Cost is determined on a weighted average basis.

Trust's Intangible Assets – At December 31, 2013, the Trust holds intangible assets that are reviewed for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is recognized if the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. When an impairment loss is recognized, the asset's carrying value is reduced to its estimated fair value. Right of ways are initially measured based on their fair values and are being amortized on a straight-line basis over the life of the right of way and are stated at cost net of accumulated amortization.

Refundable Advances and Contributions for Construction - The cost of constructing certain expansions to utility plant has been advanced or contributed to CWC by the owners of the property served by the expansions. CWC repays advances by refunding to the owners specified percentages of the annual water revenue which CWC derives from the expansions. These repayments continue until the advances are fully repaid or until the expiration of an agreed-upon repayment term. Contributions for construction are not repaid. Further, if the repayment term of an advance expires before an advance is fully repaid the unpaid balance is reclassified as contributions in-aid-of construction. Amounts classified as contributions in-aid-of construction are amortized on a straight-line basis utilizing the plant composite rate set by the Arizona Corporation Commission. The rate in effect for 2013 and 2012 was 3.98%.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Refundable advances for construction are non-interest bearing. As of December 31, 2013 and 2012 CWC's refundable advances for construction specify repayment rates up to 20% of applicable annual water revenues and the majority of these contracts contain remaining repayment terms up to 15 years.

Revenue Recognition - CWC's operating revenues are generated through sales of water to residential and commercial customers in the Green Valley area. Revenue consists of monthly cycle customer billings for water service at rates authorized by the Arizona Corporation Commission. Revenue from metered accounts includes unbilled amounts based on the estimated usage from the latest meter reading to the end of the accounting period.

Comprehensive Income - Other comprehensive income consists entirely of securities available-for-sale net unrealized holding gains and losses.

Income Taxes - CWC is an Internal Revenue Code (IRC) Section 501(a) organization, exempt from taxes by application of IRC Section 501(c)(12) for CWC's operations.

SICAN and Trust are not exempt from income taxes. Income taxes are recognized for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

Accounting for Uncertainty in Income Taxes - CWC, SICAN, and Trust have adopted the provisions of FASB ASC 740, Income Taxes, related to accounting for uncertainty in income taxes on any unrelated business income. CWC files an informational return in the U.S. federal jurisdiction and also in Arizona. SICAN and Trust each file income tax returns in the U.S. federal jurisdiction and also in Arizona.

Tax returns for all years after 2007 are subject to future examinations by tax authorities. The implementation of FASB ASC 740 had no effect on CWC Consolidated's financial statements for the years ended December 31, 2013 and 2012.

No penalties were recognized for CWC and SICAN in 2012 and 2013. Trust recognized penalties totaling $107 in 2012, its first year in operation.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. The estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. They also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk - Financial instruments that potentially subject CWC Consolidated to concentrations of credit risk consist principally of temporary cash investments and cash equivalents. CWC Consolidated places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution since they are insured by the Federal Deposit Insurance Corporation or Securities Investor Protection Corporation. Concentrations of credit risk with respect to cash equivalents are limited due to the diversification of the investments. As of December 31, 2013 and 2012, CWC Consolidated had no significant concentrations of risk.

3. SICAN's INVESTMENT IN JPAR LLC:

SICAN has an investment in JPAR LLC ("JPAR"), a development company that is recognized at book value. This investment was funded from nonmember nonutility income received from Augusta Resources Corporation, Inc. The following data reflects the book value items related to SICAN's investment in JPAR. SICAN's cumulative interest in JPAR's book value is as follows:

SICAN's cumulative interest in JPAR	**Balance At December 31, 2013 (In Thousands)**	Balance At December 31, 2012 (In Thousands)
SICAN Capital Contribution in JPAR	**340**	340
Cumulative Share of Net Loss	**$ (77)**	$ (24)
Book Value	**263**	316

3. SICAN's INVESTMENT IN JPAR LLC (continued):

Net losses are due to a timing difference because JPAR is in the development phase of operations, and losses are expected until construction is complete. JPAR's financial results can be summarized as follows:

JPAR Financial Summary	Balance At December 31, 2013 (In Thousands)	Balance At December 31, 2012 (In Thousands)
Total Assets	**$ 1,618**	$ 924
Total Liabilities	**40**	75
Total Equity	**1,578**	879
Revenues	**$ 0**	$ 0
Expenses	**256**	71
Net Loss	**$ (256)**	$ (71)

SICAN's share of net loss for the year is calculated using the weighted average capital accounts during the year. During the year ended December 31, 2013 and 2012, SICAN's loss was 21% and 33% respectively, which represented net loss of around $53,000 and $24,000 (a cumulative to date of $77,000).

4. INVESTMENT SECURITIES:

The carrying amounts of investment securities available-for-sale are as follows:

	At December 31, 2013 (In Thousands)		
	Cost	**Unrealized Gains (Losses)**	**Fair Value**
Certificates of Deposit with maturities within one-year	**$ 728**	**$ 0**	**$ 728**
Certificates of Deposit with maturities of 1-5 years	**447**	**0**	**447**
Mortgage Backed Securities U.S.	**307**	**(64)**	**243**
Total	**$ 1,482**	**(64)**	**$ 1,418**

4. INVESTMENT SECURITIES (continued):

	At December 31, 2012 (In Thousands)		
	Cost	Unrealized Gains (Losses)	Fair Value
Certificates of Deposit with maturities within one-year	$ 114	$ 0	$ 114
Mortgage Backed Securities U.S.	750	(3)	747
Total	$ 864	$(3)	$ 861

Expected maturities will differ from contractual maturities since issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

5. TRUST'S INTANGIBLE ASSETS:

Trust's intangible assets consist of the following:

	Balance At December 31, 2013 (In Thousands)	Balance At December 31, 2012 (In Thousands)
Right-of-Way Use Permits	**$ 128**	$ 2
Less: Accumulated Amortization	**(1)**	0
Total	**$ 127**	$ 2

This investment was funded from nonmember nonutility income received from Augusta Resources Corporation Inc. Total amortization expense amounted to $1,397 for the year ended December 31, 2013. Trust's right of ways acquired during the years ended December 31, 2013 and 2012 were valued at a cost of $126,031 and $2,399, respectively, and will be amortized over periods ranging from 10 years to 50 years. The following schedule by year relates to the estimated amortization expense for right of way:

	At Year End December 31 (In Thousands)
2014	**$ 6**
2015	**6**
2016	**6**
2017	**6**
2018	**6**
Total	**$ 30**

6. DEFERRED CHARGES:

Advance payments relating to future water allocation from Central Arizona Project will be amortized to expense when usage occurs. Other deferred charges include stored water credits with the Arizona Department of Water Resources, rate case expenses and advance land lease rental. The water credits will be expensed when used, rate case expenses have been amortized over three years and land rental is amortized over the term of the lease.

CWC incurred municipal and industrial water service capital charges for its 2,858 acre-feet allocation of $50,015 and $42,870 in 2013 and 2012 respectively.

Expenditures related to the development of a CAP water delivery system to CWC service area were moved to SICAN's Investment in JPAR LLC in 2012.

7. LONG-TERM DEBT / FINANCING:

On September 3, 2009, the Arizona Corporation Commission approved a $2,810,000, 60-month debt instrument with JPMorgan Chase bank which was applied to extinguish CWC's outstanding line of credit.

JPMorgan Chase has first Deed of Trust on CWC's utility plant, land and offices. The note to JPMorgan Chase bank matures on November 15, 2014, when the remaining unpaid balance is due in full. It is CWC's intent to extend the maturity of this note. Future maturity of long-term debt outstanding at December 31, 2013, based on the terms of the signed commitment is as follows:

	At Year End December 31, 2013 (In Thousands)
2014	**$ 2,236**

CWC's current debt agreement contains various covenants, the most restrictive of which began in 2011 and requires CWC to maintain a debt service ratio of at least 1.3.

Long-term debt incurs monthly payments of $11,708 and interest at the CB Floating Rate Advance (i.e., Prime Rate) plus 1%. The outstanding long-term balances were $2,236,291 and $2,376,792 at December 31, 2013 and December 31, 2012 respectively.

8. INCOME TAX:

As a 501(c)(12), CWC was not subject to income tax in 2013 and 2012. SICAN and Trust incurred the following income tax for 2013 and 2012:

	At December 31, 2013		
	SICAN	**Trust**	**Total**
Current			
Federal	**$ 351**	**$ 3,726**	**$ 4,077**
State	**176**	**363**	**539**
Total Current Tax Expense	**527**	**4,089**	**4,616**
Deferred			
Federal	**(30)**	**1,301**	**1,271**
State	**(15)**	**93**	**78**
Total Deferred Tax Exp (Benefit)	**(45)**	**1,394**	**1,349**
Income Tax Expense	**$ 482**	**$ 5,483**	**$ 5,965**

	At December 31, 2012		
	SICAN	Trust	Total
Current			
Federal	$ 400	$ 5,962	$ 6,362
State	188	549	737
Total Current Tax Expense	588	6,511	7,099
Deferred			
Federal	(395)	(4,016)	(4,411)
State	(170)	(368)	(538)
Total Deferred Tax Exp. (Benefit)	(565)	(4,384)	(4,949)
Income Tax Expense	$ 23	$ 2,127	$ 2,150

Deferred taxes are recognized for temporary differences between the bases of assets and liabilities for financial statements and income tax purposes. The differences relate primarily to accrual to cash differences and the amortization lives of intangible assets.

For SICAN, a valuation allowance of $16,965 is not recognized as a deferred tax asset at December 31, 2013 since the future benefit from accrual to cash differences from the Investment in JPAR LLC are not expected to be realized due to expected changes in profit and loss allocations in future years. The valuation increased by $11,830 during the year ended December 31, 2013.

8. INCOME TAX (continued):

The components of the net deferred tax asset (liability) at December 31, 2013 and December 31, 2012 are as follows:

	At December 31, 2013		
	SICAN	**Trust**	**Total**
Deferred Tax Asset			
Current	**$ 610**	**$ 4,023**	**$ 4,633**
Total Deferred Tax Asset	**610**	**4,023**	**4,633**
Deferred Tax Liability			
Noncurrent	**0**	**(1,033)**	**(1,033)**
Total Deferred Tax Liability	**0**	**(1,033)**	**(1,033)**
Net Deferred Tax Asset (Liability)	**$ 610**	**$ 2,990**	**$ 3,600**

	At December 31, 2012		
	SICAN	Trust	Total
Deferred Tax Asset			
Current	$ 565	$ 4,384	$ 4,949
Total Deferred Tax Asset	565	4,384	4,949
Deferred Tax Liability			
Noncurrent	0	0	0
Total Deferred Tax Liability	0	0	0
Net Deferred Tax Asset (Liability)	$ 565	$ 4,384	$ 4,949

9. SUPPLEMENTAL CASH FLOW INFORMATION:

CWC, SICAN, and Trust engaged in the following investing and financing noncash transactions.

CWC's expired Advance in Aid of Construction contracts totaled $352,465 and $211,077 in 2013 and 2012, respectively. CWC also reclassified $339,621 from deferred debit to SICAN's Investment in JPAR LLC. In return, SICAN received Paid in capital from shareholder and CWC invested in SICAN's Investment in JPAR LLC for $339,621.

CWC Consolidated recognized $99,622 and $115,007 in interest payments in 2013 and 2012, respectively. No income taxes were paid by CWC in 2013 and 2012. SICAN and Trust paid $588 and $11,255 in income tax during 2013.

10. RETIREMENT PLAN:

CWC has defined contribution retirement plans which cover substantially all full-time employees. Under the provisions of these plans, 10% to 21% of qualified employees' salaries and wages are contributed by CWC to the Retirement Plans for investment by the plan trustees.

CWC recorded expenses for these contributions of $160,409 and $137,936 for the years ended December 31, 2013 and 2012, respectively.

Under the terms of the 401(k) plan and 401(k) Roth plan, qualified employees can contribute to the plan. Qualified employees become fully vested in the employer's contributions after five years of eligible service, as defined in the plan.

11. FAIR VALUE MEASUREMENTS:

FASB ASC 820, Fair Value Measurements and Disclosures, (ASC 820) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that CWC Consolidated has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012.

Securities Available-for-Sale – Certificates of Deposits: The fair values of available-for-sale Certificates of Deposits are based on quoted market prices for those or similar investments.

11. FAIR VALUE MEASUREMENTS (continued):

Securities Available-for-Sale – Mortgage-Backed Securities: The fair values of available-for-sale securities are based on quoted market prices for those or similar investments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, although CWC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. SICAN and Trust did not hold securities in 2012 and 2013.

The following table sets forth by level, within the fair value hierarchy, CWC's assets at fair value:

Level 1	**Balance At December 31, 2013 (In Thousands)**	Balance At December 31, 2012 (In Thousands)
Securities available-for-sale Certificates of Deposits	**$ 1,175**	**$ 114**
Securities available-for-sale Mortgage Backed Securities	**243**	747
Net Loss	**$ 1,418**	**$ 861**

12. TAXES:

Some transactions require us to collect sales tax from our customers. These transactions are presented in our Consolidated Statements of Revenues and Expenses as Operating Revenues. These taxes totaled $249,574 and $271,256 in 2013 and 2012, respectively.

13. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through April 8, 2014, the date on which the financial statements were available to be issued.